



**Director of
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ISRAEL-LEBANON: Firing and Frustration

(Information as of 2300 EDT)

Firing between Israeli and Palestinian forces continued for most of the weekend with only temporary lulls, but another cease-fire took effect yesterday afternoon. The Israeli cabinet made no new decisions yesterday regarding Lebanon, but official frustration is increasing. []

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The Israelis yesterday concentrated their fire on Burj al Barajinah, the Sabra and Shatila refugee camps, Al Laylakah and the Sports Arena. The Palestinians responded with rocket and artillery fire, hitting an Israeli motor pool near the Presidential Palace, the Palace grounds, and parts of East Beirut. []

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Beirut's official radio claimed that the Israelis had attempted to advance along the airport's eastern runway, losing two tanks but forcing the defenders to withdraw. An Israeli military spokesman officially acknowledged that 28 soldiers were wounded []

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Israeli Cabinet Meeting

Israeli cabinet spokesman Meridor said after Sunday's regular cabinet meeting that no decision had been made regarding Lebanon but noted that "time is not unlimited." Media commentary after this session emphasized official Israeli frustration at the course of negotiations over the PLO's status in Lebanon, one said Prime Minister Begin was considering military alternatives to get the PLO out of Beirut. Several cabinet ministers reportedly expressed the belief that the PLO is deceiving Israel and the US in order to gain time. []

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Comment: //Syria's qualified refusal on Friday to accept the Palestinian fighters and the apparent complications in arranging for a multinational peacekeeping

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force to be sent to Beirut have contributed to the Israelis' renewed pessimism. In addition, the Israelis perceive that time works to the PLO's advantage. The regular cabinet session was bound to cause the Israelis to look more critically at the status of the talks and to focus attention on the fact that another week has passed without an agreement.//

PLO Statements

Beirut radio announced that PLO Chief Arafat had submitted to Prime Minister Wazzan an 11-point plan, which apparently gave the PLO's final conditions for a settlement. The announcement did not make clear whether the plan contained new proposals or only restated existing PLO demands.

PLO leaders continue to make hardline public statements about withdrawing from Beirut. Palestinian radio quotes Arafat's second in command as saying the PLO has proposed to evacuate only its command and as calling for disarming the Phalange as a condition for PLO disarmament. He said the PLO would not discuss other details of its military and political presence, presumably including the status of Palestinian fighters, until a multinational force arrived.

Phalange Forces

//Lebanese Muslims are almost certain to view a Phalange military expansion as further evidence that Jumayyil, backed by the Israelis, intends to gain political dominance in Lebanon. This will diminish their willingness to cooperate with the Christians in establishing a strong, multiconfessional central government. Some of Jumayyil's rivals in the Christian community are probably also becoming concerned about his bid for increased power.//

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IRAN-IRAQ: Invasion Imminent

Iran most likely will begin operations into Iraq by tomorrow.

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Iranian media continue to publicize preparations, and yesterday thousands of Iraqis who had been forced to leave Iraq held a demonstration calling for the overthrow of President Saddam Hussein and Iraq's Ba'thist regime.

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Comment: //The Iranian regime recently has made no secret of its intentions, and the demonstration by the exiled Iraqis and the apparent timing of the attack to begin on a Shia religious anniversary are but two elements of a campaign to justify the offensive and generate popular enthusiasm for a battle that will produce massive Iranian casualties.//

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SOMALIA-ETHIOPIA: Expanded Border Fighting

//Continuing Ethiopian attacks along the border with Somalia probably represent a testing of Somali defenses and a prelude to increased guerrilla activity rather than the beginning of an invasion.//

[redacted] Ethiopian forces continue to occupy the village of Balenbale, about 10 kilometers inside the border, and have also occupied the border village of Goldogob, probably in conjunction with the Libyan-armed Somali Salvation Democratic Front. These incursions have been accompanied by artillery or air attacks along the entire border and the bombing of Galcaio, which controls the main north-south road and where the Somalis claim to have shot down an Ethiopian MIG-23. [redacted]

Somali President Siad, alarmed by the threat to his already shaky regime, has requested "political, diplomatic and military assistance" from Washington. [redacted]

Comment: //The limited Ethiopian military movements [redacted] in the Ogaden are insufficient to support a sustained invasion. The Somali Army is unable to respond adequately to border attacks, however, because of poor communications and transport, which are also responsible for the sketchiness of Mogadishu's information on the current fighting.// [redacted]

//The Ethiopians probably hope to complicate Somalia's ability to defend against a long-planned campaign of widespread guerrilla attacks aimed at ousting Siad. An immediate objective may be dissident control over the Goldogob area, which is near a guerrilla base at Galadi. Such a victory would also strengthen the hand of the dissident movement with the closest ties to Addis Ababa in its merger talks with other exile groups.// [redacted]

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USSR: Grain Crop Outlook

//Prospects for the grain crop for 1982 continue to deteriorate. A serious drought in the main spring grain area has expanded and intensified in the last two weeks, particularly in major portions of the Urals, Kazakhstan and West Siberia, thereby cutting potential spring grain yields.//

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Comment: The grain harvest for this year now appears likely to total about 175 million tons. The size of the spring grain crop probably will be no more than 120 million tons, some 20 million tons below the average of recent years. The long-range weather forecast for the affected area calls for a continuation of hot, dry conditions. If the severe drought goes on for another week to 10 days, total production could approach the level of the disastrous harvest in 1981, unofficially reported at 158 million tons.

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MOZAMBIQUE: New Military Aid

//A Soviet cargo ship on Wednesday delivered military equipment to Mozambique, including what appear to be armored personnel carriers and ammunition. This is the first confirmed Soviet military delivery to Mozambique in 18 months. Yugoslavia recently agreed to give the Mozambicans small arms and other equipment valued at \$1 million, and [redacted]

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[redacted] Beijing is sympathetically considering a Mozambican request for similar assistance. President Machel also has recently approached Western countries for arms, but only Portugal has agreed to provide such aid.// [redacted]

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Comment: //Machel's efforts to obtain military aid from all possible sources reflect his growing sense of desperation over the inability of his forces to defeat South African - backed insurgents. The Soviet delivery may have been agreed to during an exchange of visits in May by senior Soviet and Mozambican military officials. The Chinese probably will welcome Machel's request as an opportunity to make inroads in a country that depends heavily on the USSR.// [redacted]

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OPEC: Failure To Agree on Quotas

OPEC oil ministers suspended their acrimonious weekend meeting in Vienna after failing to reach agreement on how to reallocate individual production quotas. A majority of the ministers apparently agreed that the crude oil production ceiling for the organization should remain at 17.5 million barrels per day, although OPEC output had risen to 18.5 million barrels per day in June with Iran, Libya, Nigeria and Algeria exceeding their quotas. The ministers rejected a Saudi proposal to raise the price of African crudes as a means of reducing their production. []

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Comment: OPEC will face increasing pressures to reduce prices since the four nations that are overproducing probably will continue doing so as long as they can find buyers. Venezuela and Indonesia, which are under financial and domestic pressures to raise output, may carry out their threats to exceed their OPEC ceilings. It is unlikely, however, that prices will collapse. In the past, OPEC members have demonstrated an ability to rise above their differences when market forces posed a serious threat to their welfare. []

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SPECIAL ANALYSIS

UK: Defense Policy After the Falklands

//The British Government is trying to maintain an orderly approach to defense planning in the aftermath of the Falklands crisis. For the near term the British probably will be able to fund their major military programs, but financial considerations ultimately may force cutbacks in their conventional forces assigned to NATO in Western Europe or in their strategic nuclear forces.//

//The annual white paper on defense, drafted before the Falklands war, emphasizes the primacy of the Soviet threat and outlines a strategy for the 1980s that includes deployment of the Trident missile system, an increase in forces protecting the homeland, and maintenance of British forces in West Germany at their current strength.//

//Defense Secretary Nott and other spokesmen contend the reductions began last year in conventional forces--especially in the surface fleet--have not damaged the UK's ability to defend its interests outside NATO. To protect the existing budget, Nott has announced a separate \$1 billion program to replace much of the equipment lost in the Falklands.//

//Purchases are to include Harrier jump-jets, helicopters and a frigate. Three destroyers marked for disposal will be retained.//

//The British probably will cancel the sale of the carrier Invincible to Australia. It is not yet clear whether all of the four warships sunk by Argentina will be replaced.//

Lessons and Pressures

//Nott told Parliament the lessons learned from the Falklands operation would be reflected in a white paper to be published in September. The delay will give the government time to develop tactics to resist more spending on conventional forces. Conservative backbenchers are likely to demand substantial improvements in the surface fleet.//

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//Royal Navy advocates will point out that the UK has 13 dependencies around the globe--several similar in size to the Falklands--with a population of some 5.5 million. These advocates will argue that:

--Prime Minister Thatcher's program for reducing the size of the Navy by retaining only two Invincible-class carriers and by cutting back drastically on destroyers and frigates would make responses to aggression overseas impossible.

--The cuts also would restrict the UK's NATO mission to protect US convoys in the Atlantic.

--British ships have proven to be undergunned and lacking in modern surface-to-air missiles and radar systems.//

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//The UK also will have to take into account other financial costs of the recent conflict, including maintaining about 3,000 troops in the Falklands as well as the operating cost of the war itself. Retaking the islands cost close to \$1 billion beyond equipment losses. Maintaining the current forces in the South Atlantic is costing about \$20-30 million per week.//

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//In addition to the costs of the garrison, refurbishing and extending the airfield at Stanley and providing the necessary support facilities as well as radar and air defense systems could cost upwards of \$100 million. After the naval task force is withdrawn, the major costs will come from resupplying the islands, probably some \$10 million per month.//

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//Lessons learned in the war will compound Nott's problems as he prepares for defense debates this fall. The anti-Trident lobby probably will grow in strength, supported by a variety of interest groups, some of which want to see the money spent on conventional forces and others who oppose nuclear weapons. A growing group in Parliament also will try to reduce the British force in West Germany on the grounds that it is consuming a disproportionate share of the defense budget.//

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//The government may have to adjust some of its plans, but Thatcher seems determined to maintain the basic direction of her defense policy. She probably will be able to satisfy critics and relieve immediate pressure

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on the Trident and the British Army of the Rhine by agreeing to keep three tactical aircraft carriers and about 50 frigates and destroyers. This would require continued improvement in the economy, a larger budget deficit and perhaps a modest tax increase.//

The Longer Term

//For the next two or three years the UK probably will be able to maintain its defense commitments to NATO, despite the need to protect the Falklands. The brief war with Argentina also has reinforced the Thatcher government's perception that the UK still has a significant ability to defend its interest outside the NATO area. This is likely, however, to reinforce the government's readiness to protect British interests elsewhere in the world.//

//The experience in the Falklands may strengthen the spirit of activism and independence--a British version of "Gaullism"--increasingly manifested in political circles. This spirit characterized the early days of the Thatcher government and occasionally strained relations with its allies.//

//Over the longer term, the strain on resources could make it difficult for the UK to fulfill the defense program as it is now outlined, particularly if the government maintains the Navy beyond currently planned levels. If funds cannot be found elsewhere, a decision may have to be made within a few years to cut conventional forces across the board, to a point where the effectiveness of all of them is seriously eroded, or to abandon one of the UK's major roles.//

//Some Conservative Party members are discussing the possibilities of drastically reducing the UK's role in West Germany or abandoning the strategic nuclear commitment. Either program would have to be gutted to effect significant savings, and the political cost of eliminating them would be great.//

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